Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity; and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date FEB 0.8 2012

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

CHRISTUS Health Years Ended June 30, 2011 and 2010 With Report of Independent Auditors

Ernst & Young LLP

■ Ernst & Young

Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2011 and 2010

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Independent Auditors' Report

The Board of Directors CHRISTUS Health

We have audited the consolidated balance sheets of CHRISTUS Health as of June 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of CHRISTUS Health's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of CHRISTUS Health's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CHRISTUS Health's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, CHRISTUS Health changed its method of accounting for goodwill and noncontrolling interest.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CHRISTUS Health at June 30, 2011 and 2010, and the results of its consolidated operations and changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2011 on our consideration of CHRISTUS Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit

Ernst + Young LLP

October 12, 2011

Consolidated Balance Sheets

	June 30			
	2011		2010	
	(In Thousands)			
Assets	·		•	
Current assets:				
Cash and cash equivalents	\$ 418,376	\$	524,263	
Short-term investments	444,893		368,566	
Equity investments in managed funds	100,721		114,095	
Assets whose use is limited or restricted, required for current				
liabilities	71,367		67,383	
Patient accounts receivable, net of allowance for uncompensated				
care of \$171,310 and \$163,715 at June 30, 2011 and June 30,			•	
2010, respectively	313,652		306,119	
Estimated third-party payor settlements	943		10,826	
Notes and other receivables	125,705		89,485	
Inventories	88,432		89,427	
Assets held for sale	2,150		28,308	
Securities pledged to creditors	40,211		48,656	
Security lending collateral	39,155		49,137	
Other current assets	38,690		43,847	
Total current assets	1,684,295		1,740,112	
Assets whose use is limited or restricted, less current portion	812,963		487,210	
Property, plant, and equipment, net of accumulated depreciation	1,786,833		1,816,814	
Other assets:				
Investments in unconsolidated organizations	188,550		174,580	
Derivative financial instruments	12,375		4,824	
Goodwill	91,569		125,754	
Other assets	81,074		93,897	
Other restricted assets	 13,453		21,378	
Total other assets	387,021		420,433	
Total	\$ 4,671,112	\$	4,464,569	

	June 30			
		2011		2010
•	(In Thousands)			ands)
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	\$	365,852	\$	303,921
Accrued employee compensation and benefits	٠	163,645		154,047
Accrued benefits, current portion	-	6,927		5,713
Estimated third-party settlements		43,024		25,308
Current portion of long-term debt		57,904		57,483
Payable under security lending agreement		39,462		49,566
Long-term debt subject to remarketing agreements		_		194,695
Total current liabilities		676,814		790,733
Long-term debt, less current portion		1,175,036		1,001,098
Accrued pension benefits, long-term portion		116,446		217,148
Derivative financial instruments		72,348		94,600
Other long-term obligations – primarily related to self-funded				
liabilities, less current portion		180,428		174,211
Total liabilities		2,221,072		2,277,790
Net assets:				
Unrestricted:				
Attributable to CHRISTUS Health		2,261,844		2,012,039
Attributable to noncontrolling interest		113,249		103,714
Total unrestricted		2,375,093		2,115,753
Temporarily restricted		61,396		57,906
Permanently restricted		13,551		13,120
Total net assets ·		2,450,040		2,186,779
Total	<u>\$</u>	4,671,112	\$	4,464,569

See accompanying notes.

Consolidated Statements of Operations and Changes in Net Assets

	For the Years Ended June 30		
	2011	2010	
	(In The	ousands)	
Unrestricted revenues:			
Net patient service revenue	\$ 3,410,683	\$ 3,266,011	
Premium revenue	164,735	154,581	
Other revenue	172,118	191,107	
Equity in income of unconsolidated organizations	33,417		
Total revenues	3,780,953	3,634,523	
Expenses:			
Émployee compensation and benefits	1,629,067	1,583,294	
Services and other	984,578	938,918	
Supplies	631,169	615,335	
Depreciation and amortization	220,933	237,945	
Provision for uncollectible accounts	172,703	162,765	
Interest	42,803	37,766	
Total expenses	3,681,253	3,576,023	
Operating gain	99,700	58,500	
Nonoperating investment gain	114,785	26,663	
Other nonoperating loss	(18,435)	(7,151)	
Revenues in excess of expenses	196,050	78,012	
Less revenues in excess of expenses attributable to			
noncontrolling interest	1 8, 717	14,829	
Revenues in excess of expenses attributable to CHRISTUS Health	177,333	63,183	

(Continued on following page)

Consolidated Statements of Operations and Changes in Net Assets (continued)

	For the Years Ended June 30			
		2011		2010
<u>.</u>		(In The	านรสเ	nds)
Changes in unrestricted net assets:				
Revenues in excess of expenses attributable to				
CHRISTUS Health	\$	177,333	\$	63,183
Net change in unrealized gain on investments		5,823		6,893
Change in pension liabilities		100,462		10,843
Change in noncontrolling interest		9,535		11,923
Other		939		(23,110)
Changes in unrestricted net assets before effect of change in				
`accounting principle		294,092		69,732
Effect of change in accounting principle (Note 3)		(34,752)		
Changes in unrestricted net assets		259,340		69,732
Temporarily restricted net assets:	-			
Contributions		11,823		3,680
Net change in unrealized gain on investments		1,943		2,730
Net assets released from restrictions and other		(10,276)		(8,377)
Changes in temporarily restricted net assets		3,490		(1,967)
Changes in permanently restricted net assets		431		(93)
Changes in net assets		263,261		67,672
Net assets – beginning of period		2,186,779		2,119,107
Net assets – end of period	\$	2,450,040	\$:	2,186,779

Consolidated Statements of Cash Flows

		For the Years Ended June 30, 2011		
		2011	2010	
•		(In Thou	sands)	
Operating activities:				
Changes in net assets:	\$	263,261	67,672	
Adjustments to reconcile changes in net assets to net cash				
provided by operating activities:				
Change in pension liabilities		(100,702)	3,476	
Contributions of temporarily restricted net assets		(11,823)	(3,680)	
Equity in income of unconsolidated organizations		(33,417)	(22,824)	
Equity earnings on investments in managed funds		(10,591)	(18,160)	
Depreciation and amortization		220,933	237,945	
Provision for uncollectible accounts		172,703	162,765	
Change in derivative fair value		(29,803)	18,953	
Loss on early extinguishment of debt		508	4,399	
Gain on disposal of property, plant, and equipment		(3,779)	_	
Impairment of goodwill		34,752	_	
Impairment of long-lived assets		7,041	_	
Changes in operating assets and liabilities, net of acquisitions:				
Increase in net patient accounts receivable		(180,236)	(110,995)	
Increase in trading securities		(387,208)	(93,732)	
(Increase) decrease in notes and other receivables		(36,220)	110,308	
Decrease (increase) in inventories		995	(5,497)	
Decrease (increase) in other current assets		6,342	(10,411)	
Increase in accounts payable, accrued expenses, and accrued			• • •	
employee compensation and benefits		66,221	1,748	
Increase in net third-party payor settlements		27,599	342	
Increase in liability for self-funded liabilities		14,773	13,244	
Net cash provided by operating activities		21,349	355,553	
	·		 	
Investing activities:		(1.43.505)	(1/1/25/0	
Purchases of property, plant, and equipment		(143,707)	(161,356)	
Proceeds from sale or disposal of property, plant, and equipment		24,119	16,528	
Decrease (increase) in equity investments in managed funds		5,110	(8,716)	
Decrease in investments in unconsolidated organizations		19,447	7,745	
Decrease in securities pledged to creditors		8,445	4,398	
,	· · · · · · · · · · · · · · · · · · ·		(9,519)	
Decrease in security lending collateral		9,982	4,228	
Acquisitions of health care entities, net of cash acquired		_	(19,037)	
Net investing cash flows pertaining to assets held for sale			2,777	
Net cash used in investing activities		(65,954)	(162,952)	

(Continued on following page)

Consolidated Statements of Cash Flows (continued)

	For the Years Ended June 30, 2011			
		2011	2010	
	(In Thousands)			
Financing activities:				
Contributions of temporarily restricted net assets	\$	11,823 \$	•	
Other costs associated with debt refinancing/conversion		(1,295)	(6,046)	
Proceeds from debt issuance		99,617	331,201	
Payments on long-term debt		(161,323)	(355,867)	
Decrease in payable under security lending agreements		(10,104)	(4,672)	
Net cash used in financing activities		(61,282)	(31,704)	
Net (decrease) increase in cash and cash equivalents		(105,887)	160,897	
Cash and cash equivalents - beginning of year		524,263	363,366	
Cash and cash equivalents - end of year	\$	418,376 \$	524,263	
Noncash investing and financing transactions:				
Capital lease obligations incurred for property, plant, and equipment	\$	15,022 \$	3,034	
Supplemental disclosure of cash flow information				
Cash paid during the year for interest (net of amount capitalized)	<u>\$</u>	43,736 \$	35,842	

See accompanying notes.

Notes to Consolidated Financial Statements

June 30, 2011

1. Mission, Vision, and Organization of CHRISTUS Health

CHRISTUS Health was incorporated as a Texas nonprofit corporation on December 15, 1998. CHRISTUS Health (CHRISTUS or the System) is sponsored by the Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas, and the Congregation of the Sisters of the Incarnate Word of San Antonio, Texas. The Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas sponsors the Sisters of Charity Health Care System (SCH), and the Congregation of the Sisters of Charity of the Incarnate Word of San Antonio, Texas sponsors the Incarnate Word Health System (IWHS). SCH and IWHS continue to exist and carry out their ministries.

The mission of CHRISTUS Health is to extend the healing ministry of Jesus Christ. The Gospel values underlying the mission statement challenge CHRISTUS Health to make choices that respond to the economically disadvantaged and the underserved with health care needs. The growth and development of CHRISTUS Health are determined by the health care needs of the communities that CHRISTUS Health serves, its available resources, and the interrelationship of those serving and those being served. Responsible stewardship mandates that CHRISTUS searches out new, effective means to deliver quality health care and to promote wholeness in the human person.

The vision of CHRISTUS Health is to be a leader, a partner, and an advocate in the creation of innovative health and wellness solutions that improve the lives of individuals and communities so that all may experience God's healing presence and love.

The consolidated financial statements of CHRISTUS Health include activities of its affiliated market-based organizations and other related entities, all of which are wholly or majority-owned and commonly referred to as regions or entities. For purposes of these consolidated financial statements, the "System" is defined as CHRISTUS Health's affiliated market-based organizations and other related entities. The other related entities include, but are not limited to, hospital foundations, professional office buildings, management services organizations, physician groups, a collection agency, self-insurance trusts, an offshore captive insurance company, health plans, integrated community health networks, and diagnostic imaging companies.

CHRISTUS Health controls or owns, directly or indirectly, or manages various nonprofit and for-profit corporations and other organizations that currently operate in the states of Texas, Arkansas, Georgia, Louisiana, Missouri, New Mexico, Iowa, and in the Republic of Mexico.

Notes to Consolidated Financial Statements (continued)

1. Mission, Vision, and Organization of CHRISTUS Health (continued)

CHRISTUS Health and certain affiliated nonprofit corporations are generally exempt from federal income taxes under Section 501(a) of the Internal Revenue Code, as organizations described in Section 501(c)(3).

2. Community Health

In accordance with its mission and philosophy, the System commits significant resources to improving the health of the communities it serves. In support of its mission, the System provides programs and services for entire communities, with a special consideration for those who are poor and underserved.

Programs and Services for the Poor and Underserved – represent the financial commitment to serve those who have inadequate resources and/or are uninsured or underinsured. Services are offered with the conviction that health care is a basic human right and all deserve access. The categories included as programs and services for the poor and the underserved are as follows:

- Charity Care in accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the organization's criteria for financial assistance. Traditional charity care is defined by the state of Texas as the unreimbursed costs of providing, funding, or otherwise financially supporting the health care services provided to a person with income at or below 200% of the federal poverty level. Charity care services provided to these patients are not reported as revenue in the consolidated statements of operations and changes in net assets as there is minimal or no expectation of payment.
- Unpaid Costs of Medicaid and Other Public Programs for the Indigent represent the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of any payments received from all sources.

Community Services for the Poor and Underserved – represent the unpaid cost of services provided for which a patient is not billed, or for which a fee has been assessed that recovers only a portion of the cost of the rendered service. This category includes services to those in need through community health programs. The programs cover a broad spectrum of services, from community health centers to immunizations for children and seniors, meals on wheels,

Notes to Consolidated Financial Statements (continued)

2. Community Health (continued)

transportation services, home repair projects, and a variety of other social services. These programs may also seek justice for the vulnerable and work to bring about changes in political and economic systems.

Examples of CHRISTUS Health Community Benefits accounted for under Community Services for the Poor and Underserved include:

- The CHRISTUS Community Direct Investment (CDI) Program was established to support community-driven initiatives primarily for affordable housing and economic development by providing financing at below-market interest rates. The majority of the support is provided to programs in the CHRISTUS operating regions. The amount the System would have earned on these monies is the forgone income that is considered a community benefit.
- The CHRISTUS Fund was established for the purpose of providing grants to support community planning, healthy community initiatives, and community-based programs, with a focus on the poor and underserved areas where CHRISTUS Health ministries and sponsoring congregations are involved.

Community Services Provided for the Broader Community – represent the unpaid cost of services provided for the benefit of the entire community. The majority of these expenditures are for graduate medical education programs, either through CHRISTUS-sponsored or affiliated programs. Other benefits for the broader community include health promotion and wellness programs, health screenings, newsletters, and radio or television programs intended for health education. These programs are not intended to be financially self-supporting.

Education and Research - represents the direct costs associated with medical education and other health professional educational programs in excess of governmental payments.

Other Community Services - represent leadership activities, community planning, and advocacy.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies

Basis of Consolidation -

The consolidated financial statements include the accounts of all entities of the System (see Note 1). All significant inter-entity transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management of the System to make assumptions, estimates, and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient revenues, which include contractual allowances; provisions for bad debt; reserves for losses and expenses related to health care professional and general liabilities; determination of fair values of certain financial instruments; determination of fair value of certain goodwill and long-lived assets; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less.

Investments

The System's investment portfolio is classified as trading, with unrealized gains and losses included in revenues in excess of expenses. Investments in equity securities and funds with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include equity investments in managed funds structured as limited liability corporations or partnerships. These investments are accounted for under the equity method.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Investment income or loss (including equity investment earnings on managed funds; realized and unrealized gains and losses, computed on the average-cost basis of the security at the time of sale; and interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law.

Investment income earned on assets held by trustees under bond indenture agreements, assets held by foundations, assets deposited in trust funds for self-insurance purposes, and funds held by insurance subsidiaries in accordance with industry practices is included in other revenue in the consolidated statements of operations and changes in net assets.

Derivative Financial Instruments

The System utilizes interest rate swaps to hedge interest rate exposures. Changes in the fair value of the System's interest rate swaps are recorded as a component of nonoperating investment gain in the consolidated statements of operations and changes in net assets. The expense representing the net of the payments made and received under the swap agreements is also recorded as a component of nonoperating investment gain.

Inventories

The System values inventories, which consist principally of medical supplies and pharmaceuticals, at the lower of cost (first-in, first-out, or weighted-average cost valuation method) or market basis.

Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost or, if donated, at fair value at the time of donation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged against operations.

Depreciation is calculated and recorded over the estimated useful life of each class of depreciable assets using the straight-line method. The American Hospital Association – Estimated Useful Lives of Depreciable Hospital Assets is used as a general guide in establishing depreciable lives. Amortization of capital leases is included in depreciation expense.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Assets Held for Sale

A long-lived asset or disposal group of assets and liabilities that is expected to be sold, and for which it is probable that the sale will be completed within one year, is classified as held for sale. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon discounted cash flows less incremental direct costs to transact a sale.

Asset Impairment

The System periodically evaluates the carrying value of its operating long-lived assets and assets held for sale for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. Impairment write-downs are recognized as a reduction in operating gain for the operating long-lived assets and as a reduction in nonoperating gain for the assets held for sale at the time the impairment is identified.

In March 2011, management determined that the Bossier Medical Center asset group held for sale in the Northern Louisiana Region had a valuation lower than its recorded book value and that there was no reasonable expectation of recovery. An impairment adjustment of \$6,400,000 was recorded to adjust the carrying value to the estimated fair value less costs to sell, which is included in other nonoperating loss in the consolidated statement of operations and changes in net assets.

Investments in Unconsolidated Organizations

The System has investments in certain organizations for which it does not have a majority ownership interest or significant control, and therefore these organizations do not require consolidation. Generally, these investments are recorded using the equity method of accounting for those organizations in which the System owns greater than 20%. The cost method of accounting is used for organizations in which the System owns 20% or less.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Securities Lending

The System participates in securities lending transactions facilitated by the lending agent. Such loans are secured by collateral of 102% of the market value of domestic securities and 105% of the market value of foreign securities at the time of the loan. Per the securities lending agreement, such collateral will typically be cash or debt securities issued by the U.S. Government or any of its agencies. Cash collateral received in connection with these loans is currently invested in a pooled fund of securities that mature in no more than 13 months, and is maintained by the lending agent. The securities on loan and invested collateral are marked to market throughout the duration of the loan.

Goodwill

The System records goodwill arising from a business combination as the excess of purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. At June 30, 2011 and 2010, the System had goodwill of \$91,600,000 and \$125,800,000, respectively. Beginning in fiscal year 2011, with the adoption of ASU 2010-07 as described below, the amortization of goodwill ceased and goodwill is tested at least annually for impairment at the reporting unit level. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The System has determined that its reporting units are the various geographic Regions of the System. The first step in the impairment process is to determine the fair value of the reporting unit and then compare it to the carrying value, including goodwill. If the fair value exceeds the carrying value, no further action is required and no impairment loss is recognized.

The System determined that the use of the income and market approaches were the most appropriate methods of measuring fair value of the reporting units. These are considered Level 3 valuations in the valuation hierarchy described in Note 6. Under the income approach, fair value is estimated using a discounted cash flow analysis. Under the market approach, fair value is estimated using a guideline company method and a comparable transaction method. Both the income approach and the market approach require significant assumptions to determine the fair value of each reporting unit. The significant assumptions used in the income approach include estimates of future revenues, profits, capital expenditures, working capital requirements, operating plans, industry data, and an appropriate discount rate for each reporting unit. The significant assumptions utilized in the market approach include the determination of appropriate market comparables and estimated multiples of net revenue and earnings before interest, taxes, depreciation, and amortization.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Additional impairment assessments may be performed on an interim basis if the System encounters events or changes in circumstances that would indicate that it is more likely than not that the carrying value of goodwill has been impaired. The System performed a transitional impairment test as of July 1, 2010, upon adoption of the guidance in Accounting Standards Update (ASU) 2010-07, Not-for-Profit Entities: Mergers and Acquisitions. As a result of the transitional impairment test, goodwill at the Northern Louisiana, Central Louisiana, and Spohn Regions totaling \$34,752,000 was written off, which is recorded as the effect of a change in accounting principle in the consolidated statement of operations and changes in net assets.

Deferred Financing Costs

Deferred financing costs, net of accumulated amortization, included in other assets at June 30, 2011 and 2010, are \$20,019,000 and \$20,689,000, respectively, which are being amortized using the interest method, over the terms of the indebtedness to which they relate.

Temporary and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Patient Accounts Receivable, Estimated Payables to Third-Party Payors, and Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from third-party payors and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in net patient service revenue and estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The System has adopted an uncompensated care policy whereby revenue from services provided to the uninsured is recognized at the time of payment, rather than at the time of service. This policy is a result of the lack of reasonable assurance of collection for services provided to the uninsured due to the System's historically low collection rate. Management has estimated that

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

the difference between recording this revenue on the cash basis versus the accrual basis is immaterial to net patient service revenue for fiscal years 2011 and 2010. Accordingly, all accounts receivable from the uninsured have been fully reserved in the allowance for uncompensated care. The resulting adjustment is recorded as revenue deductions from gross charges to arrive at net patient service revenue.

Accounts Receivable Allowance

The System's recorded allowance for uncompensated care is based on expected net collections, after contractual adjustments, primarily from patients. Management routinely assesses these recorded allowances relative to changes in payor mix, cash collections, write-offs, recoveries, and market dynamics.

Premium Revenue and Associated Costs

Premium revenue represents revenues derived under capitated arrangements with third parties. In return for these premiums, the contracting entity is responsible for providing essentially all health care services to enrolled participants. Costs for providing these services, including services provided by other health care providers, are included as operating expenses in the consolidated financial statements. At June 30, 2011 and 2010, the respective contracting entities have accrued expenses for incurred but not reported claims based upon claims experience. The contracting entities maintain stop-loss insurance coverage to limit exposure for certain catastrophic claims.

Other Revenue

Other revenue is derived from services other than providing health care services or coverage to patients, residents, or enrollees. This revenue typically includes investment income from all funds held by a trustee, malpractice funds, or other miscellaneous investment activities; rental of health care facility space; sales of medical and pharmaceutical supplies to employees, physicians, and others; proceeds from sales of cafeteria meals and guest trays to employees, medical staff, and visitors; and proceeds from sales at gift shops, snack bars, newsstands, parking lots, vending machines, or other service facilities operated by the health care organization.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

International Operations

The System owns a 59.6% interest in CHRISTUS Muguerza, S.A. de C.V. (CHRISTUS Muguerza), headquartered in Monterrey, Mexico. CHRISTUS Muguerza is a private health care system and is subject to taxes in accordance with the regulations of the Republic of Mexico. The financial statements of CHRISTUS Muguerza are presented in accordance with accounting principles generally accepted in the United States and are consolidated in the CHRISTUS Health consolidated financial statements.

Effective September 13, 2010, CHRISTUS Health increased its ownership interest in CHRISTUS Muguerza from 55.9% to 59.6% by purchasing 5,132,048 additional shares for cash consideration in the amount of \$5,000,000.

Minimum Revenue Guarantees

CHRISTUS enters into agreements with non-employed physicians that include minimum revenue guarantees. These guarantees primarily arise through physician recruiting efforts and vary by physician specialty. Generally, the term of these guarantees ranges from one to two years, with the majority including a forgiveness period that begins during the second year of the guarantees. The estimated amount of the liability for CHRISTUS' obligation under these guarantees was \$6,798,000 and \$7,043,000 at June 30, 2011 and 2010, respectively, and is included in accrued expenses and other long-term obligations in the accompanying consolidated balance sheets.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

The maximum amount of future payments that the System could be required to make under all existing guarantees is approximately \$12,405,000.

Asset Retirement Obligations

CHRISTUS estimates the conditional asset retirement obligation primarily associated with asbestos abatement to be \$7,430,000 and \$7,524,000 as of June 30, 2011 and 2010, respectively.

Uncertainty in Income Taxes

The authoritative guidance in Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of this guidance, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. There are no material unrecorded tax liabilities as of June 30, 2011 and 2010.

New Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding mergers and acquisitions for not-for-profit entities, ASU 2010-07, Notfor-Profit Entities: Mergers and Acquisitions. The pronouncement establishes principles and requirements for how a not-for-profit entity accounts for mergers and acquisitions. The pronouncement also makes FASB Statement No. 142, Goodwill and Other Intangible Assets, found under ASC Topic 350, and FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, found under ASC Topic 810, fully applicable to not-forprofit entities. These pronouncements were effective for CHRISTUS on July 1, 2010. The System's adoption of the guidance in ASC Topic 350 resulted in the cessation of amortizing goodwill effective July 1, 2010. The transitional impairment analysis performed as of July 1, 2010, resulted in the impairment of \$34,752,000 of goodwill, which is reflected as the effect of a change in accounting principle in the accompanying consolidated statement of operations and changes in net assets. The System's adoption of the guidance in ASC Topic 810 on July 1, 2010, did not materially affect its financial position or results of operations, other than reclassifying its noncontrolling interest (previously shown as minority interest) in various entities to a component of net assets on the consolidated balance sheet. Additionally, noncontrolling interest expense is

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

no longer reported as a reduction in revenues in excess of expenses on the consolidated statement of operations and changes in net assets, but instead is shown below revenues in excess of expenses under the heading "revenues in excess of expenses attributable to noncontrolling interest" on the statement of operations and changes in net assets for all periods presented.

In January 2010, the FASB issued ASU 2010-06, which clarifies certain existing fair value measurement disclosure requirements of ASC Topic 820 (formerly SFAS No. 157, Fair Value Measurements) and also requires additional fair value measurement disclosures. Specifically, ASU 2010-06 clarifies that assets and liabilities must be categorized by major class, or level, of asset or liability, and provides guidance regarding the identification of such major classes. Additionally, disclosures are required about valuation techniques and the inputs to those techniques for those assets or liabilities designated as Level 2 or Level 3 instruments. Disclosures regarding transfers between Level 1 and Level 2 assets and liabilities are required, as well as a deeper level of disaggregation of activity within existing rollforwards of the fair value of Level 3 assets and liabilities.

In August 2010, the FASB issued ASU 2010-23, Health Care Entities (Topic 954): Measuring Charity Care for Disclosure. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for CHRISTUS on July 1, 2011. CHRISTUS is currently evaluating the impact on its disclosures from the adoption of this pronouncement.

In August 2010, the FASB issued ASU 2010-24, Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries. The amendments in the ASU clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for CHRISTUS on July 1, 2011. CHRISTUS is currently evaluating the impact on its consolidated financial position and results of operations from the adoption of this pronouncement.

In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. The amendments in the ASU require

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

CHRISTUS to change the presentation of its consolidated statement of operations and changes in net assets by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, the ASU requires enhanced disclosure about CHRISTUS' policies for recognizing revenue and assessing bad debts, patient service revenue (net of contractual allowances and discounts), and qualitative and quantitative information about changes in the allowance for doubtful accounts. This ASU is effective for CHRISTUS on July 1, 2012, with early adoption permitted. CHRISTUS is currently evaluating the impact on its consolidated financial position and results of operations from the adoption of this pronouncement.

Reclassifications

Certain amounts have been reclassified in the prior year's financial statements to conform to the classifications used in the current year.

4. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Amounts subject to retroactive adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. The estimated settlements recorded at June 30, 2011 and 2010 could differ from actual settlements. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient diagnosis related group classification system that is based on clinical, diagnostic, and other factors.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid under cost reimbursement methodologies, prospectively determined rates per discharge, and prospectively determined or negotiated rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 26.6% and 3.5%, respectively, of the System's net patient revenue for the fiscal year ended 2011 and 27.4% and 5.0%, respectively, of the System's net patient revenue for the fiscal year ended 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenue (continued)

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and negotiated daily rates.

In July 1991, the Texas Legislature passed a bill authorizing a state program (Medicaid Dispro), whereby all hospitals in the state of Texas that qualified as a disproportionate share health care provider would receive Medicaid Dispro funds. This program, with certain revisions, was extended through September 30, 2011, and is administered by the Texas Department of Health. In 1993, the Texas Legislature expanded the number of hospitals qualifying to receive Medicaid Dispro funds to include rural facilities. The source of these funds is assessments from qualifying hospitals that are matched at a specific percentage by the federal government.

Additionally, the federal Medicaid rules allow for hospitals to be reimbursed for some of the uncompensated cost of treating Medicaid and uninsured patients up to an Upper Payment Limit (UPL). UPL programs act as mechanisms to draw federal Medicaid dollars into local communities. The Texas Medicaid program has chosen a county-specific UPL strategy to receive supplemental federal matching funds. Under these programs, various hospital participants in the respective counties have elected to provide health care services to the indigent population in the county as charity services and, as such, no third party has an obligation to pay for these services. Separately, and with no legal obligation or link to the hospitals' provision of charity services, the tax-supported governmental entity may choose, entirely at its discretion, to contribute a portion of its tax revenues into the state's Medicaid program. The amounts transferred by the governmental entity to the state Medicaid program are then matched at the federal level, and the total amount (the amount transferred to the state Medicaid program by the governmental entity and the related federal match) is then paid to the hospital participants based upon each hospital's individual applicable funding entitlement. In addition to the allocations received by the Medicaid program, hospital participants in some communities may make charity community benefit transfers to each other throughout the year to reach a previously agreed-upon sharing ratio.

Medicaid supplemental payments, which include Medicaid Dispro and UPL payments, net of settlements and amounts transferred between program participants, of approximately \$334,267,000 and \$265,311,000 were recorded in 2011 and 2010, respectively. Net patient service revenue in the accompanying consolidated statements of operations and changes in net assets includes all Medicaid supplemental funds.

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenue (continued)

The Texas Health and Human Services Commission (HHSC) has filed an application with the Centers for Medicare and Medicaid Services (CMS) to approve an 1115(b) demonstration waiver from traditional Medicaid financial and eligibility rules. The approval of such waiver could impact the revenue the System receives under the Medicaid supplemental payments. The amounts of future reimbursements under these programs cannot be assured beyond August 31, 2011. For fiscal years 2011 and 2010, net patient service revenue increased approximately \$16,403,000 and \$19,643,000, respectively, related to changes in estimates for cost report reopenings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional re-opening, and/or appeal.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, participation requirements of government health care programs, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. There are matters currently under audit and/or review by regulatory and government officials. These reviews and audits may or may not result in revisions to cost reports, resubmitted billings, unasserted possible claims that are probable of assertion, or loss contingencies. Compliance with such laws and regulations may be subject to future government review and interpretation, as well as regulatory actions.

Notes to Consolidated Financial Statements (continued)

5. Cash and Investments

Total cash and investments for the System at June 30, 2011 and 2010, including assets whose use is limited, are (in thousands):

		2011	2010
Cash and cash equivalents Certificates of deposit	\$	615,867 25,465	\$ 797,594 20,403
Domestic equities and equity funds Preferred stocks		283,297 1,712	174,722 2,868
Fixed income securities and fixed income funds International equities		547,914 110,466	270,915 97,779
U.S. Government securities Equity in managed funds		158,907 144,806	66,309 149,916
Other investments	•	97 1,888,531	29,666 \$ 1,610,172

Cash and cash equivalents include cash, money market bank accounts, interest-bearing bank accounts, and debt securities with original maturities of less than three months. United States Government securities include debt securities issued by the U.S. Government or a U.S. Government agency. Fixed income securities include corporate debt securities, common collective trusts, and certificates of deposit greater than three months. Marketable equity securities include domestic and foreign stocks, as well as mutual funds and common collective trusts. Equity in managed funds includes investments in limited liability partnerships or corporations and other alternative investments. Other investments include municipal and foreign fixed income instruments and restricted investments held by the System's philanthropic foundations.

The System's equity investments in managed funds are recorded based on the System's share of the underlying value of marketable securities held by these funds, as reported to the System. Equity method investments include reported changes in value as reported to the System by the fund custodians. These investments are recorded at amounts confirmed by fund custodians. These amounts cannot be validated by the management of the System, and there can be no assurance such reported amounts will be ultimately realized.

The System's investments are subject to various types of risks, as explained below.

Notes to Consolidated Financial Statements (continued)

5. Cash and Investments (continued)

Fixed Income

This investment class includes investments in various fixed income instruments that include investment-grade and high-yield domestic and international bonds, preferred stocks, mortgage pools, master limited partnership units, and bonds issued by U.S. Government agencies. This investment class also includes investments in common trust funds, mutual funds, and exchange-traded funds that hold investments in fixed income securities. The fixed income investments are exposed to various kinds and levels of risk, including interest rate risk, credit risk, foreign exchange risk, and liquidity risk.

Equities

This investment class consists primarily of common equity securities of domestic and foreign companies. These securities trade through the major public domestic and international exchanges. This investment class also includes investments in common trust funds, mutual funds, and exchange-traded funds that hold investments in equity securities. The equity securities investments are exposed to various risks, including market risk, individual security risk, foreign exchange risk, and, for common equity of companies with a small market capitalization, liquidity risk.

Equity Investments in Managed Funds

These funds are invested with external investment managers who invest primarily in various alternative categories, including long and short equity positions, managed futures, emerging markets, distressed enterprises, and arbitrage positions. These investments are domestic and international in nature, are illiquid, and may not be realized for a period of several years after the investments are made. The risks associated with these investments are numerous, resulting in a greater likelihood of losing invested capital. The risks include the following:

Nonregulation Risk – These funds are not required to register with the Securities and Exchange Commission (SEC) and are not subject to regulatory controls.

Managerial Risk – Fund managers may fail to produce the intended returns and are not subject to oversight.

Notes to Consolidated Financial Statements (continued)

5. Cash and Investments (continued)

Minimal Liquidity — Many funds impose lock-up periods that prevent investors from redeeming their shares or impose penalties to redeem.

Limited Transparency – As unregistered investment vehicles, funds are not required to disclose the holdings in their portfolios to investors.

Investment Strategy Risk — The funds often employ sophisticated, risky investment strategies, are speculative, and may use leverage, which could result in volatile returns.

The System has no commitments for funding to equity investments in managed funds as of June 30, 2011. Assets whose use is limited or restricted consisted of the following at June 30, 2011 and 2010 (in thousands):

	2011		2010
\$	71.367	\$	67,383
Ψ.	71,007	Ψ	07,505
•	499,205		213,917
	81,475		92,147
	10,968		8,938
	158,930		120,288
	62,385		51,920
<u>\$</u>	884,330	\$	554,593
	\$	\$ 71,367 499,205 81,475 10,968 158,930 62,385	\$ 71,367 \$ 499,205 81,475 10,968 158,930 62,385

Notes to Consolidated Financial Statements (continued)

5. Cash and Investments (continued)

Investment return and gains for assets limited as to use, cash equivalents, and other unrestricted investments consisted of the following for the years ended June 30, 2011 and 2010 (in thousands):

		2011	2010
Operating interest and dividend income	\$	5,103 \$	4,691
Operating gain, realized and unrealized		17,413	9,881
Equity investment earnings on managed funds		741	1,864
Total operating investment income		23,257	16,436
Nonoperating interest and dividend income	_	12,555	11,094
Nonoperating gain, realized and unrealized		80,170	43,247
Equity investment earnings on managed funds		9,850	9,159
Net swap agreement activity		12,210	(36,837)
Total nonoperating investment gain		114,785	26,663
Total investment gain	\$	138,042 \$	43,099

6. Fair Value Measurements

The three-level valuation hierarchy for disclosure of fair value measurements is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Notes to Consolidated Financial Statements (continued)

6. Fair Value Measurements (continued)

The following tables present the financial instruments carried at fair value as of June 30, 2011 and 2010 (in thousands) by the valuation hierarchy (as described above):

•	2011						
		Level 1		Level 2		Level 3	Total
Assets							
Investments:							
Cash and cash equivalents	\$	615,867	\$	_	\$	- \$	615,867
Certificates of deposit		25,465				_	25,465
Domestic equities and equity							
funds		201,054		82,243		_	283,297
Preferred stocks		1,712		_		_	1,712
Fixed income securities and fixed							
income funds		_		547,914		_	547,914
International equities		110,466		_			110,466
U.S. Government securities		· _		158,907		_	158,907
Other investments		_		97		_	97
Total investments		954,564		789,161			1,743,725
Interest rate swap asset		, –		12,375			12,375
Total assets at fair value	\$	954,564	\$	801,536	\$	- \$	
		-					
Liabilities							
Interest rate swap agreements	\$	_	\$	72,348	\$	- \$	72,348
Total liabilities at fair value	\$		\$	72,348	\$	\$	72,348

Notes to Consolidated Financial Statements (continued)

6. Fair Value Measurements (continued)

•	2010						
		Level 1		Level 2	Level 3		Total
Assets				•			
Investments:							·
Cash and cash equivalents	\$	797,594	\$	_	\$ -	\$	797,594
Certificates of deposit		20,403		· –	_		20,403
Domestic equities		174,722		· –	_		174,722
Preferred stocks		2,868		_	_		2,868
Fixed income securities and fixed							
income funds				270,915	_		270,915
International equities		97,779		_			97,779
U.S. Government securities		_		66,309			66,309
Other investments			_	29,666			29,666
Total investments		1,093,366		366,890			1,460,256
Interest rate swap asset		_		4,824	_		4,824
Total assets at fair value	\$	1,093,366	\$	371,714	\$	\$	1,465,080
Liabilities							
	æ		æ	94,600	\$ -	. \$	9 04 600
Interest rate swap agreements	\$		φ. •		<u> </u>	** · **	
Total liabilities at fair value	<u>*</u>		<u> </u>	94,600	<u>\$</u>	<u> </u>	94,600

The valuation methodologies used for instruments measured at fair value as presented in the tables above are as follows:

• Investments – Investments are valued at quoted prices available in an active market and are classified within Level 1 of the valuation hierarchy.

Investments valued based on evaluated bid prices provided by third-party pricing services where quoted market prices are not available are classified within Level 2 of the valuation hierarchy.

• Interest rate swap agreements – Interest rate swap agreements are valued using thirdparty models that use observable market conditions as their input and are classified within Level 2 of the valuation hierarchy.

Notes to Consolidated Financial Statements (continued)

6. Fair Value Measurements (continued)

At June 30, 2011 and 2010, the System's financial instruments included cash and cash equivalents, accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term debt, approximate their fair value.

The System's fixed rate debt is enhanced with bond insurance. The estimated fair value of the fixed rate debt, if it were not enhanced by insurance, approximates \$632,290,000 at June 30, 2011, as compared to its carrying value of \$592,506,000.

At June 30, 2011, the System has several issues of variable rate demand and auction-rate bonds outstanding. The System's continued participation in these debt programs depends on its ability to extend or replace the existing credit facilities supporting the respective standby purchase agreements. If these credit facilities are not available, the System will likely refund these outstanding series with available funds or funds derived from fixed rate series proceeds. It is not practicable to estimate the fair value of the variable rate demand and auction-rate bonds separate from the value supported by the credit facilities.

7. Property, Plant, and Equipment

Property, plant, and equipment at June 30, 2011 and 2010, consisted of the following (in thousands):

	2011	2010	
Land	\$ 217,307	\$ 204,160	
Land improvements	73,391	70,231	
Buildings and fixed equipment	2,330,211	2,293,778	
Major movable equipment	1,822,097	1,772,988	
Less accumulated depreciation	(2,710,751)	(2,549,701)	
	1,732,255	1,791,456	
Construction-in-progress (estimated cost to complete is \$75 million and \$68 million at June 30, 2011			
and 2010, respectively)	54,578	25,358	
Total	\$ 1,786,833	\$ 1,816,814	

Notes to Consolidated Financial Statements (continued)

7. Property, Plant, and Equipment (continued)

Depreciation expense for the System for fiscal years 2011 and 2010 totaled \$210,668,000 and \$220,889,000, respectively.

8. Investments in Unconsolidated Organizations

The System has unrestricted investments in unconsolidated organizations of \$188,550,000 and \$174,580,000 at June 30, 2011 and 2010, respectively. The following investments account for 95% and 94% of the System's total investments in unconsolidated organizations in 2011 and 2010, respectively:

Baptist St. Anthony's Health System

CHRISTUS Health has a 50% membership interest in Baptist St. Anthony's Health System (BSAHS), a Texas nonprofit corporation. BSAHS is a market leader in the Amarillo area. CHRISTUS Health's recorded investment in BSAHS, accounted for under the equity method, was \$162,488,000 and \$138,148,000 at June 30, 2011 and 2010, respectively. The 2011 and 2010 balance includes \$8,648,000 and \$8,513,000, respectively, of restricted net assets that are included in other restricted assets. CHRISTUS Health recorded its share of BSAHS's gains from operations of \$24,707,000 and \$15,263,000 in 2011 and 2010, respectively. The System also recorded its share of the change in unrealized gains on investments of \$249,000 and \$197,000 at June 30, 2011 and 2010, respectively, as changes in unrestricted net assets. Additionally, the System had a note receivable from BSAHS resulting from the formation of the joint venture that was paid off in the first quarter of fiscal year 2011. At June 30, 2010, the principal amount of the note receivable was \$7,950,000, and is included in notes and other receivables in the consolidated balance sheets.

Preferred Professional Insurance Company

CHRISTUS Health has a 12.1% ownership interest in Preferred Providers Insurance Company (PPIC), a taxable Nebraska corporation. This corporation, formed in 1988, was established to provide excess professional and general liability insurance. CHRISTUS Health's recorded investment in PPIC, accounted for under the cost method, was \$17,059,000 at both June 30, 2011 and 2010. The System recorded income from its investment in PPIC in fiscal years 2011 and 2010 of \$789,000 and \$222,000, respectively.

Notes to Consolidated Financial Statements (continued)

8. Investments in Unconsolidated Organizations (continued)

CS/USP Surgery Centers, L.P.

CHRISTUS Spohn Health System Corporation has a 50% ownership interest in a Texas limited liability partnership with United Surgical Partners International, Inc. for the purpose of owning and operating ambulatory surgery centers in Corpus Christi, Texas. The venture consists of two surgery centers near the campus of Spohn Shoreline, specifically Corpus Christi Outpatient Surgery and SurgiCare. CHRISTUS Health's recorded investment, accounted for under the equity method, was \$5,762,000 and \$5,947,000 at June 30, 2011 and 2010, respectively. The System recorded its share of income from operations in fiscal years 2011 and 2010 of \$645,000 and \$666,000, respectively.

Omega Lab Joint Venture

CHRISTUS Health has a 40% ownership interest in Omega Lab Joint Venture. At June 30, 2011 and 2010, the System's recorded investment in Omega Lab Joint Venture, accounted for under the equity method, was \$3,152,000 and \$3,079,000, respectively. The System recorded its share of Omega Lab Joint Venture income from operations in fiscal years 2011 and 2010 of \$520,000 and \$678,000, respectively.

Notes to Consolidated Financial Statements (continued)

9. Long-Term Debt

Long-term debt at June 30, 2011 and 2010, consisted of the following (in thousands):

		2011	2010
Revenue bonds, in variable rate demand mode, with weighted-average trading rates of .25% and 0.40% in fiscal 2011 and 2010, respectively, due in 2047	\$	269,250	\$ 269,695
Revenue bonds, in auction mode, with weighted-average interest rates of 1.17% and 1.22% in fiscal 2011 and		•	
2010, respectively, due in 2031		219,125	322,575
Revenue bonds, in fixed rate mode, bearing interest from 3.00% to 6.50%		592,506	517,083
Capital lease payable to Nueces County Hospital District, bearing interest at a fixed rate of 6.9%, with annual principal payments through 2026, secured by the assets of CHRISTUS Spohn Hospital Memorial Capital lease payable to Bee County, bearing interest at a fixed rate of 6.0%, with annual principal payments		46,907	48,649
through 2030, secured by the assets of CHRISTUS Spohn Hospital Beeville		9,367	9,732
Nonobligated bank notes and capital leases related to		7,00 7	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
CHRISTUS Muguerza investment		55,263	55,764
Other note and capital lease note obligations		40,522	29,778
		1,232,940	1,253,276
Less current maturities on long-term debt:			
Long-term debt subject to remarketing agreements		_	(194,695)
Less current portion	_	(57,904)	(57,483)
Total .	<u>\$</u>	1,175,036	\$ 1,001,098

According to the terms of the CHRISTUS Health Master Trust Indenture, the Obligated Group consists of eight CHRISTUS Health regions as follows: CHRISTUS Spohn Health System, CHRISTUS Health Gulf Coast, CHRISTUS Health Southeast Texas, CHRISTUS Santa Rosa Health Care Corporation, CHRISTUS Health Ark-La-Tex, CHRISTUS Health Northern Louisiana, CHRISTUS Health Central Louisiana, and CHRISTUS Health Southwestern Louisiana. CHRISTUS Health is the Obligated Group Agent.

Notes to Consolidated Financial Statements (continued)

9. Long-Term Debt (continued)

Certain entities of CHRISTUS Health that are otherwise included in the consolidated financial statements of CHRISTUS Health are excluded from the CHRISTUS Health Obligated Group. These entities include, but are not limited to, the CHRISTUS Health Liability Retention Trust, Emerald Assurance, CHRISTUS St. Vincent Regional Medical Center, CHRISTUS Health Utah, CHRISTUS Provider Network, CHRISTUS Continuing Care, CHRISTUS Muguerza, S.A. de C.V., and various philanthropic foundations.

Under the provisions of the Master Trust Indenture, the obligations of CHRISTUS Health and the other members of the Obligated Group are secured by a pledge of gross revenues. Additionally, each member of the Obligated Group has undertaken certain covenants, including the following: to ensure the payment of debt service; to ensure the payment of taxes and other claims; to deliver compliance statement(s); to preserve corporate existence; to maintain books and records subject to inspection by the Master Trustee; to maintain insurance; to conform to defined lien limitations; to establish adequate service rates; to maintain a sufficient debt service coverage and indebtedness ratio; to maintain a required aggregate amount of unrestricted cash and investments; and to adhere to certain defined conditions with respect to consolidation, merger, conveyance or transfer, and admission or withdrawal of Obligated Group members pursuant to the Master Trust Indenture, insurer, and letter of credit bank agreements.

In August 2009, CHRISTUS Health issued debt in the amount of \$231,005,000, which consisted of \$156,005,000 in fixed rate bonds (Series 2009A) and \$75,000,000 in variable rate demand bonds (VRDBs) (Series 2009B). The issues were used to refund the outstanding Series 2007C and Series 2008D bonds and to fund a debt service reserve fund for the Series 2009A bonds. The Series 2007C bonds were supported by a standby bond purchase agreement provided by Landesbank Hessen-Thüringen Girozentrale, acting through its New York branch, which was terminated as part of the transaction. The Series 2009B VRDBs were initially supported by a letter of credit issued by The Bank of New York Mellon that would have expired on February 28, 2012. Subsequent to June 30, 2011, the letter of credit was amended to expire on July 31, 2014.

In December 2009, CHRISTUS Health issued \$72,695,000 of fixed rate bonds (Series 2009C). The issue refinanced the outstanding 2008 C-5 VRDBs. As a result of this transaction, the letter of credit supporting the Series 2005 C-5 bonds with Compass Bank was terminated. CHRISTUS Health also converted \$54,260,000 of auction rate securities to fixed rate bonds through a reoffering of the Series 2005 C-3 bonds. The fixed rate bonds are insured by FSA (currently Assured Guaranty).

Notes to Consolidated Financial Statements (continued)

9. Long-Term Debt (continued)

The outstanding Series 2008C VRDBs are supported by letters of credit issued by Bank of America that expire on December 17, 2015.

In June 2010, the System redeemed the remaining portion of the Series 1998A fixed rate bonds before the final maturity. In December 2010, CHRISTUS Health converted \$93,380,000 of auction rate securities to fixed rate bonds through a reoffering of the Series 2005 A-5 and 2005 A-6 bonds. The fixed rate bonds are insured by Assured Guaranty Municipal Corp (AGMC).

The System recorded a loss on the early extinguishment of debt of \$508,000 and \$4,399,000 in fiscal years 2011 and 2010, respectively, which is recorded in other nonoperating loss.

In addition, the CHRISTUS Health System was obligated on approximately \$152,059,000 and \$143,923,000 of additional long-term debt, which included capitalized leases and notes payable to others as of June 30, 2011 and 2010, respectively.

Principal payments for all long-term debt for the next five years and thereafter are as follows (in thousands):

2012	•		•	. \$	57,904
2013	•				56,107
2014		•			53,519
2015			•		56,173
2016					58,908
Thereafter					950,329
Total debt				\$	1,232,940

10. Derivative Financial Instruments

Interest rate swap contracts between the System and third parties (counterparties) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and expose the System to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the System's counterparties. The counterparties to these contracts are financial

Notes to Consolidated Financial Statements (continued)

10. Derivative Financial Instruments (continued)

institutions that carry investment-grade credit ratings. The interest rate swap contracts contain certain collateral provisions applicable to both parties to mitigate credit risk. CHRISTUS has complied with these provisions as required. No collateral was posted at June 30, 2011. The System does not anticipate nonperformance by its counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their blended cost of capital. As of June 2011, CHRISTUS Health has interest rate swap agreements to manage interest rate risk exposure, not designated as hedging instruments, with a total notional amount of \$1,221,065,000.

At June 30, 2011, the fair value of these swap agreements was a net liability of \$59,973,000, with \$72,348,000 recorded as a liability and \$12,375,000 recorded as an asset on the consolidated balance sheet. At June 30, 2010, the fair value of these swap agreements was a net liability of \$89,776,000, with \$94,600,000 recorded as a liability and \$4,824,000 recorded as an asset on the consolidated balance sheet. The change in fair value of \$29,803,000 and \$18,953,000 for the years ended June 30, 2011 and 2010, respectively, is combined with the payments, net of receipts made under the agreements, of \$17,592,000 and \$17,884,000 for the years ended June 30, 2011 and 2010, respectively. This total is included in nonoperating investment gain in the statements of operations and changes in net assets.

The following tables summarize the fair value at June 30, 2011 and 2010, and the income (loss) recorded related to the interest rate swap agreements as of and for the years ended June 30, 2011 and 2010, in thousands.

		Termination	Interest Rate	Notional		Fair Va	lue	Cha	ange in	Fair V	Value	Paid/(R	Received)
Counterpar	ty Description	Date	Agreements	Amount		/30/2011	6/30/2010	6/30	/2011	6/3	0/2010	6/30/2011	6/30/2010
Merrill	Variable					,							
Lynch	basis	2021-2023 2022 and	6	\$ 470,0	00 \$	(7,093) \$	(14,410)	S	7,317	\$	917	\$ 248	\$ 354
*Citigroup	Fixed payor Constant	2031	2	271,8)5	(23,084)	(27,511)		4,427		(9,541)	8,264	8,465
Citigroup	maturity	2022	1	200,0	00 .	12,375	4,824		7,551		4,941	_	_
Citigroup	Fixed payor	2047	2	166,1	00 -	(25,414)	(31,656)		6,242		(9,078)	5,423	5,414
Citigroup	Fixed payor	2047	1	113,1	50	(16,757)	(21,023)		4,266		(6,192)	3,657	•
			12	\$ 1,221,0	55 \$	(59,973) \$	(89,776)	S	29,803	\$	(18,953)	\$ 17,592	

^{*}In FY 2010 the notional amount was \$279,075 and it was adjusted to decrease by \$7,270 on July 7, 2010.

Notes to Consolidated Financial Statements (continued)

10. Derivative Financial Instruments (continued)

On August 26, 2011, CHRISTUS terminated two swaps with counterparty Citigroup. CHRISTUS terminated one of the 2005 Fixed Payor Swaps with an original notional amount of \$54,075,000 and a termination date of July 1, 2022, and the Constant Maturity Swap with a notional amount of \$200,000,000 and a termination date of June 1, 2022. CHRISTUS received net proceeds of \$5,785,000 as a result of the terminations.

11. Cash Balance Plan and Postretirement Health Care Benefits

Cash Balance Plan

The System has established a noncontributory, defined-benefit retirement plan that operates as a cash balance plan and covers substantially all CHRISTUS Health employees who meet age and service requirements. The plan benefits are calculated based on a cash balance formula wherein participants earn an annual accrual of 6% of compensation and participant account balances accrue interest at a rate that tracks ten-year treasury notes; the maximum rate is 8% and the minimum rate is 2%.

Postretirement Health Care Benefits

Comprehensive medical benefits are provided to eligible active employees who, immediately upon retirement and attainment of age 55, will receive a pension under the CHRISTUS Health retirement plan. Postretirement benefits are also provided to former employees who are currently receiving pension benefits. The comprehensive medical program, which is self-insured, provides reimbursement benefits until the participant attains age 65. The program also covers dependents of retirees, in addition to former employees. Contributions are required. Retirees may choose one of two self-insured indemnity plan options. Effective February 1, 1999, the CHRISTUS Health postretirement benefit plan was curtailed prospectively. As of the effective date, new employees or employees that had not vested as of that date are not eligible for the postretirement health care benefits. The liability associated with the postretirement plan will be reduced as employee participation decreases.

Simplified Early Retirement Plan (SERP)

Prior to the formation of CHRISTUS, a plan for executives was curtailed prospectively. Under this plan, eligible participants receive a cash benefit payment until death and participate in the System's retiree health, dental, and group term life program. Fewer than two dozen participating

Notes to Consolidated Financial Statements (continued)

11. Cash Balance Plan and Postretirement Health Care Benefits (continued)

retirees currently maintain benefit payment status. Benefits are recalculated when participants attain age 65 and remain constant thereafter. At June 30, 2011 and 2010, the total liability recorded pertaining to this SERP was \$5,175,000 and \$5,481,000, respectively.

Restoration Plan

The restoration plan, a nonqualified, deferred compensation plan, was designed to restore benefits that are lost under the cash balance plan due to the statutory limit on recognizable compensation. Eligibility is limited to designated executives. The plan provides benefits upon termination of employment to qualifying participants. Plan benefits are calculated using the same methodology for the cash balance plan; vesting requirements are also the same. The restoration plan is unfunded.

The measurement date for all plans is June 30. Components of net periodic benefit cost, recorded as a component of employee compensation and benefits, for the years ended June 30, 2011 and 2010, consisted of the following (in thousands):

		Cash Bal	anc	e Plan		Postret	ire	ment	SEI	КP			Restorat	ion	Plan
	_	2011		2010		2011		2010	 2011		2010		2011	_	2010
Service cost	S	43,135	\$	42,660	\$	578	\$	607	\$ _	\$	_	\$	203	\$	255
Interest cost		37,887		40,830		1,056		1,310	_		_		103		191
Expected return on															
assets		(44,720)	ı	(39,514)		_		-	_		_		_		-,
Amortization of prior															
service cost		(775)	l	(850)		-		_	_				103		103
Recognized net actuarial													-		
loss (gain)		19,589		20,201					 (306)		231		(67)		11
Net benefit cost	5	55,116	\$	63,327	S	1,634	\$	1,917	\$ (306)	\$	231	S	342	\$	560
	_											_		==	

At June 30, 2011 and 2010, unrestricted net assets include \$133,519,000 and \$233,574,000, respectively, of amounts arising from defined-benefit plans that have not yet been recognized in net periodic benefit cost. Amounts recognized in unrestricted net assets expected to be recognized in net periodic benefit cost during fiscal 2012 are \$7,356,000.

Notes to Consolidated Financial Statements (continued)

11. Cash Balance Plan and Postretirement Health Care Benefits (continued)

The following table sets forth the changes in benefit obligations, changes in plan assets, and funded status of the plans measured as of June 30 (in thousands):

•		Cash Bal	anc	e Plan		Postretirement			SERP				Restoration Plan		
		2011		2010	_	2011		2010	_	2011	2010		2011	2010	
Changes in benefit obligation: Benefit obligations –											,				
beginning of year	\$	800,271	\$	732,237	Ś	21,987	\$	21,698	\$	5,481 \$	5,250	S	2,374 \$	3,378	
Service cost		43,135		42,660		578		607		_	_		203	255	
Interest cost		37,887		40,830		1,056		1,310		_	-		103	192	
Actuarial loss (gain)		(45,342)		20,481		(1,567)		168		(306)	231		407	(1,121)	
Benefits paid		(33,268)		(35,93 <u>7)</u>		(547)		(1,796)			<u> </u>		(210)	(330)	
Benefit obligation – end of year	<u>\$</u>	802,683	\$	800,271	<u>\$</u>	21,507	\$	21,987	\$	5,175 \$	5,481	\$	2,877 \$	2,374	
Change in plan assets: Fair value of plan assets - beginning of year	\$	585,018	\$	521,749	S	. –	\$	-	\$	- \$	-	\$	- \$	-	
Actual return on plan assets		80,991		50,207						_	_		_	_	
Employer contributions		55,865		49,000		547		1,796		_	_		210	330	
Benefits paid		(33,268)		(35,937)		(547)		(1,796)		_	_		(210)	(330)	
Fair value of plan assets – end of year	<u>-</u>	688,606	\$	585,019	<u>s</u>		\$	-	<u>\$</u>	s		<u> </u>	- \$		
Funded status of the plans: Underfunded	\$	(114,078)	\$	(215,253)	\$	(21,506)	\$	(21,988)	S	(5,175) \$	(5,481)	s	(2,878) \$	(2,374)	
Unrecognized net actuarial loss (gain) Unrecognized prior		135,538		236,740		(2,181)		(614)		-	_		(234)	(709)	
service cost		(2,247)	ı	(3,022)				_			_		463	565	
Prepaid (accrued) benefit cost	<u>s</u>	19,213	s	18,465	\$	(23,687)	\$	(22,602)	<u>s</u>	(5,175) \$	(5,481)	s	(2,649) \$	(2,518)	

Notes to Consolidated Financial Statements (continued)

11. Cash Balance Plan and Postretirement Health Care Benefits (continued)

As of June 30, 2011 and 2010, the CHRISTUS cash balance plan had accumulated benefit obligations of \$767,586,000 and \$747,206,000, respectively. Assumptions used to determine benefit obligations and net periodic benefit cost for the fiscal years were as follows:

	Cash Balance Plan		Postretir	ement	SER	JP	Restoration Plan		
-	2011	20 10	2011	2010	2011	2010	2011	2010	
Benefit obligations: Discount rate Rate of compensation	5.15%	4.83%	4.96%	4.92%	5.15%	4.83%	5.15%	4.83%	
increase	4.09	4.61	N/A	N/A	4.09	4.61	4.09	4.61	
Net periodic benefit cost: Discount rate	4.83	5.84	4.96	4.92	4.83	5.84	4.83	5.84	
Expected long-term return on plan assets Rate of compensation	7.50	7.50	N/A	N/A	N/A	N/A	N/A	N/A	
increase	4.61	4.61	N/A	N/A	4.61	4.61	4.61	4.61	

The investment objective with regard to the plan assets is one of long-term capital appreciation and generation of a stream of current income. This balanced approach is expected to earn long-term total returns, consisting of capital appreciation and current income, that are commensurate with the expected rate of return used by the plans.

The following information pertains only to the CHRISTUS Health postretirement plan. The first table details information pertaining to assumed health care cost trend rates. The second table depicts the effect of a 1% point change in assumed health care cost trend rates:

				Postre	tiren	tent
	Postret	irement		 6 Point crease		6 Point ecrease
	2011	2010	_	(In Th	ousar	nds)
Assumed health care cost trend rates	•					
at June 30	9.0%	8.0%				
Health care cost trend rate assumed			Effect on total of service cost			
for next year	8.0	7.0	and interest cost components	\$ 160	\$	(141)
Ratio to which the cost trend rate is assumed to decline (the ultimate			•		•	
trend rate)	5.5	5.0				
Year that the rate reaches the ultimate			Effect on postretirement benefit			
trend rate	2015	2014	obligation	1,783		(1,599)
·						

Notes to Consolidated Financial Statements (continued)

11. Cash Balance Plan and Postretirement Health Care Benefits (continued)

Investment Policy and Asset Allocations

The investment policies and strategies for the assets of the cash balance plan incorporate a well-diversified approach that is expected to generate long-term returns from capital appreciation and a growing stream of current income. This approach recognizes that assets are exposed to risk and the market value of the plan assets may fluctuate from year to year. Risk tolerance is determined based on the plan's financial stability and the ability to withstand return volatility. In developing the expected return on plan assets, the System evaluates the historical performance of total plan assets, the relative weighting of plan assets, interest rates, economic indicators, and industry forecasts. In line with the investment return objective and risk parameters, the mix of assets includes a diversified portfolio of equity, fixed income, and alternative investments. Equity investments include international stocks and a blend of domestic growth and value stocks of various sizes of capitalization. The aggregate asset allocation is rebalanced as needed, but not less than on an annual basis.

The asset allocations for the cash balance plan at June 30, 2011 and 2010, by asset category, are detailed below (in thousands). The postretirement plan, SERP, and restoration plan are unfunded.

	 2011	2010
Cash and cash equivalents	\$ 98,516 \$	95,839
Domestic common stocks	165,710	106,773
Preferred stocks	_	291
Fixed income securities	203,298	138,436
International equities	39,217	86,826
Equity investments in managed funds	 179,676	156,564
Total	\$ 686,417 \$	584,729

Notes to Consolidated Financial Statements (continued)

11. Cash Balance Plan and Postretirement Health Care Benefits (continued)

The allocation of plan assets by asset category for the cash balance plan, as of June 30, is as follows:

	2011	2010
Allocation of plan assets by asset category:		
Cash and cash equivalents	14.0%	16.0%
Equity investments in managed funds (as discussed in		
Note 5)	27.0	27.0
Fixed income securities	29.0	24.0
Equity securities	30.0	33.0
Total	100.0%	100.0%

The value of the plan assets measured at fair value on a recurring basis was determined using the following inputs, as described in Note 6, at June 30, 2011 (in thousands):

	_	Level 1	 Level 2	Level 3	Total
Assets		, <u>=</u>			
Investments					
Cash and cash equivalents	\$	308	\$ 98,208	\$ - \$	98,516
Domestic common stocks		165,710	_	· _	165,710
Fixed income securities		_	203,298	_	203,298
International equities		39,217	_	_	39,217
Equity investments in managed					
funds		_	` -	179,676	179,676
Total investments		205,235	301,506	179,676	686,417
Total assets at fair value	\$	205,235	\$ 301,506	\$ 179,676 \$	686,417

Notes to Consolidated Financial Statements (continued)

11. Cash Balance Plan and Postretirement Health Care Benefits (continued)

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy (in thousands):

	He	dge Funds	,	Private Equity	R	eal Estate	Natural esources
Fair value at July 1, 2010 Purchases, issuances, and	\$	91,165	\$	50,542	\$	10,925	\$ 3,931
settlements		7,753		12,158		350	1,481
Actual return on plan assets		1,842		(1,360)		1,178	(289)
Fair value at June 30, 2011	\$	100,760	\$	61,340	\$	12,453	\$ 5,123

The cash balance plan has \$58,858,000 of funding commitments to equity investments in managed funds as of June 30, 2011.

Contributions

In fiscal year 2012, CHRISTUS expects to contribute \$56,400,000 to the cash balance plan based on asset values for the plan year beginning January 1, 2011. Contributions to the cash balance plan of \$55,865,000, and \$49,000,000 were made for plan years beginning January 1, 2010 and 2009, respectively. Since the postretirement plan, SERP, and restoration plan are unfunded, no cash contributions are expected.

Notes to Consolidated Financial Statements (continued)

11. Cash Balance Plan and Postretirement Health Care Benefits (continued)

Benefit Payments

The following benefit payments, which reflect expected future service relative to the cash balance plan and expected benefit payments for services previously rendered relative to the postretirement plan and the SERP, are expected to be paid as follows (in thousands):

	Ca	Cash Balance Plan		Post- etirement		SERP	Restoration Plan	
2012	\$	35,673	\$	1,122	\$	598	\$	523
2013	, •	39,486	Ψ	1,318	Ψ	581	Ψ	273
2014		42,391		1,491		562		284
2015		44,915		1,665		541		293
2016		48,307		1,788		518		308
Years 2017-2020		297,103		10,381		2,195		1,480

Defined-Contribution Plans

The System has a defined-contribution plan (the Matched Savings Plan) covering substantially all CHRISTUS Health employees. Annual employee contributions are limited to 50% of compensation, up to the Internal Revenue Service dollar limits. The System will match 50% of employee contributions, not to exceed 4% of annual compensation. Employer contributions vest to the employee over a five-year period. For the years ended June 30, 2011 and 2010, expenses attributable to the Matched Savings Plan amounted to \$8,173,381 and \$9,632,255, respectively.

CHRISTUS St. Vincent Regional Medical Center (St. Vincent) has two 403(b) defined-contribution plans for union and nonunion employees. St. Vincent makes a set lump-sum contribution per year for nurse union employees and a contribution of 3.5% of gross salaries for nonunion employees, as defined by the plans' agreements. For fiscal years 2011 and 2010, St. Vincent has incurred approximately \$3,960,000 and \$3,781,000 in expenses related to the plans, respectively.

Notes to Consolidated Financial Statements (continued)

11. Cash Balance Plan and Postretirement Health Care Benefits (continued)

ExecuFLEX Benefit Plan

The System established an ExecuFLEX plan (ExecuFLEX), which is limited to designated executives. Plan participants receive an ExecuFLEX allowance to be allocated among four different components: CHRISTUS Health ExecuFLEX Individual Long-Term Disability Plan, CHRISTUS Health ExecuFLEX Supplemental Survivor Plan, CHRISTUS Health ExecuFLEX Spouse Survivor Plan, and CHRISTUS Health ExecuFLEX Deferred Income Account (DIA) Plan.

CHRISTUS Health maintains a collateral interest in the individual life insurance policies under the supplemental survivor plan and the spouse survivor plan to the extent of the cumulative advanced premiums paid on behalf of the participant(s). Upon termination of employment, a participant is required to surrender any policy with a cash surrender value less than the advanced premiums.

The DIA Plan is a nonqualified, deferred compensation plan; eligibility is limited to designated executives. Benefits vest based on certain qualifying events and are paid to participants when fully vested. The funds contributed by participants to this component of the ExecuFLEX Plan are held in a Rabbi Trust until vesting requirements have been satisfied. The System has an asset recorded for the investments in the Rabbi Trust with a corresponding liability. As of June 30, 2011 and 2010, the total asset and the corresponding liability were \$9,044,000 and \$7,411,000, respectively.

12. Self-Funded Liabilities

The System self-funds and insures for primary professional and general liability, workers' compensation, and employee medical benefits. A wholly owned, captive insurance company, Emerald Assurance Cayman Ltd. (Emerald), is used to fund primary professional and general liability. Additionally, the System internally sets aside funds for workers' compensation and employee medical benefits. Funding amounts are based on actuarial recommendations.

The assets of the captive insurance company, internally designated funds, and the estimated liability for losses are reported in the consolidated balance sheets. Investment income from the assets and the provision for estimated self-funded losses and administrative costs are reported in the consolidated statements of operations and changes in net assets. The estimated self-funded

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Notes to Consolidated Financial Statements (continued)

12. Self-Funded Liabilities (continued)

losses include expected claim payments, including settlement costs for reported claims and an actuarial determination of expected losses related to claims that have been incurred but not reported.

Emerald was incorporated in the Cayman Islands on June 27, 2003, and operates subject to the provisions of the Companies Law (2003 Revision) of the Cayman Islands. Emerald was granted an Unrestricted Class "B" Insurer's license on June 30, 2003, which it holds subject to the provisions of the Insurance Law (2003 Revision) of the Cayman Islands. Emerald has received an undertaking from the Cayman Islands government exempting it from local income, profits, and capital gains taxes until July 29, 2023. No such taxes are currently levied in the Cayman Islands.

13. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents of the geographies of the various System health care centers and are insured under third-party payor agreements. The mix of gross accounts receivables from patients and third-party payors at June 30, 2011 and 2010, was as follows:

	2011	2010
Medicare	24.6%	24.7%
Medicaid	5.3	8.8
Managed care organizations	36.6	37.4
Commercial insurance	4.6	6.5
Self-pay	15.9	11.5
Others	13.0	11.1
	100.0%	100.0%

14. Commitments and Contingencies

Operating Leases

The System leases various equipment and facilities under noncancelable operating leases expiring at various dates through May 19, 2045. Total rental expense in 2011 and 2010 for all operating leases was approximately \$46,948,000 and \$43,857,000, respectively.

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies (continued)

The System's leases have varying terms, which may include renewal or purchase options and escalation clauses, that are factored into determining minimum lease payments. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2011, that have initial or remaining lease terms in excess of one year (in thousands):

2012	\$ 31,459	•
2013	27,389)
2014	23,338	3
2015	19,240)
2016	15,562	2
Thereafter	32,306	<u> </u>
Total	\$ 149,294	1

From time to time, the System is subject to litigation in the ordinary course of operations. In management's opinion, any future settlements or judgments on asserted or unasserted claims will not have a material effect on the System's consolidated financial statements.

CHRISTUS Spohn Health System Corporation (CHRISTUS Spohn) has received a request and subpoena from the Health and Human Services Office of the Inspector General (OIG) for one-day stay information, and CHRISTUS Spohn has worked with the OIG and the U.S. Attorney's office in the Southern District of Texas to comply with this request. While maximum penalties could have a material impact on CHRISTUS Health's financial condition, management anticipates that any final settlement will not have a material adverse impact on its financial condition.

CHRISTUS Health has received notification that several regions have been identified as part of the nationwide Department of Justice (DOJ) investigation to determine whether, in certain cases, implantable cardioverter defibrillators (ICDs) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. Through October 12, 2011, the DOJ has not asserted any claims against the System. The System continues to fully cooperate with the DOJ in its investigation. While maximum penalties could have a material impact on CHRISTUS Health's financial condition, management anticipates that any final settlement will not have a material adverse impact on its financial condition.

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies (continued)

Because the government's enforcement efforts presently are widespread within the industry and may vary from region to region, there can be no assurance that the compliance program will significantly reduce or eliminate the exposure of the System to civil or criminal sanctions or adverse administrative determinations.

15. Functional Expenses

The System provides general health care services to residents throughout various geographic locations. Expenses related to providing these services at June 30, 2011 and 2010, are as follows (in thousands):

	2011	2010
Health care services	\$ 2,721,502	\$ 2,633,422
Physician services	188,017	158,133
General and administrative	771,734	784,468
Total	\$ 3,681,253	\$ 3,576,023

16. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010, are available for the following purposes or periods (in thousands):

· ·	 2011	2010
Purchase of equipment/capital improvement	\$ 13,263 \$	20,380
Indigent care	2,744	2,034
Health education	1,985	1,671
Health care services	7,076	9,704
Community outreach	13,281	11,504
Other	23,047	12,613
Total	\$ 61,396 \$	57,906

Notes to Consolidated Financial Statements (continued)

16. Temporarily and Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2011 and 2010, are restricted as follows (in thousands):

	2011	2010
Investments to be held in perpetuity, the income from which is expendable to support health care services		
(reported as operating income)	\$ 7,699	\$ 7,550
Endowment requiring income to be added to original gift	3,922	3,174
Other	 1,930	 2,396
Total	\$ 13,551	\$ 13,120

17. Assets Held for Sale

During fiscal year 2009, the System implemented a plan to monetize nonoperational assets where appropriate. As a result, several properties were identified and marketing plans were developed. The System classified certain long-lived assets as held for sale in fiscal years 2011 and 2010. The System has classified \$2,150,000 and \$28,308,000 as assets held for sale at June 30, 2011 and 2010, respectively. During fiscal year 2011, land of approximately \$16,100,000 that was classified as held for sale at June 30, 2010 was reclassified as property, plant, and equipment at June 30, 2011.

Approximately \$1,147,000 of the assets held for sale balance at June 30, 2011 is land. The remaining \$1,003,000 represents nonoperational buildings in several Regions. Approximately \$2,150,000 of the assets held for sale at June 30, 2010 continue to be classified as held for sale at June 30, 2011. This classification is considered appropriate due to market conditions and length of time required to execute sale transactions. The assets are recorded at the lower of the book or estimated fair value at June 30, 2011.

Notes to Consolidated Financial Statements (continued)

18. Changes in Consolidated Unrestricted Net Assets

Changes in consolidated unrestricted net assets that are attributable to the System and the noncontrolling interests in subsidiaries are as follows:

	Controlling I Interest	Noncontrolling Interest	Total
Balance, July 1, 2009 Unrestricted revenues, gains, and other	\$ 1,954,230	\$ 91,791	\$ 2,046,021
support in excess of expenses	63,183	14,829	78,012
Distributions Other activities	(5,374)	(597) (2,309)	(597) (7,683)
Balance, June 30, 2010 Unrestricted revenues, gains, and other	2,012,039	103,714	2,115,753
support in excess of expenses	177,333	18,717	196,050
Distributions Other activities	- 72,472	(11,592) 2,410	(11,592) 74,882
Balance, June 30, 2011	\$ 2,261,844		\$ 2,375,093

19. Significant Events

Expansion of Healthcare Operations - Santa Rosa

In July 2009, the CHRISTUS Santa Rosa Region bought a 38% ownership interest in the Foundation Surgery Affiliates of New Braunfels, LLC (FSA) for cash consideration of \$2,417,000. In addition to the cash purchase price, CHRISTUS Santa Rosa paid cash consideration of \$558,000 to FSA to terminate the management agreement of the facility. The FSA facility is located in New Braunfels, Texas. Subsequent to the acquisition, FSA merged with CHRISTUS Santa Rosa Outpatient Surgery – New Braunfels, LP. CHRISTUS Santa Rosa has an ownership interest of 55.95% in the merged entity. The transactions were accounted for under the pooling method of accounting. CHRISTUS Santa Rosa and CHRISTUS Santa Rosa Outpatient Surgery – New Braunfels, LP executed a management services agreement whereby CHRISTUS Santa Rosa will perform certain management services for the combined entity.

Notes to Consolidated Financial Statements (continued)

19. Significant Events (continued)

In September 2009, CHRISTUS Santa Rosa purchased a 51% ownership interest in the Foundation Surgery Center of San Antonio for an estimated cash consideration of \$14,400,000 and the assumption of \$23,500,000 in debt. Foundation Surgery Center has total assets of \$19,500,000, including \$4,600,000 in current assets, and total liabilities of \$27,400,000 after acquisition. Foundation Surgery Center of San Antonio has four locations in San Antonio and performs approximately 25,000 procedures annually. CHRISTUS Santa Rosa also paid cash consideration of approximately \$4,600,000 to assume the management agreement. The transaction resulted in approximately \$19,000,000 in goodwill.

Effective July 1, 2010, the System reorganized its post-acute operations. Certain long-term acute care facilities operated by Dubuis Health System were transferred to CHRISTUS Continuing Care, which resulted in approximately \$24,400,000 recorded in other changes in unrestricted net assets at June 30, 2010. Subsequently, the System ceased to consolidate Dubuis Health System.

On February 4, 2011, substantially all the operating assets of CHRISTUS St. Joseph Villa in Salt Lake City, Utah, were sold to The Ensign Group for a sale price of \$16,500,000. CHRISTUS St. Joseph Villa is a continuing care retirement facility with 327 beds/units offering independent and assisted living, long-term care, post-acute care and geri psych services. The gain from operations for the year ended June 30, 2011 was \$647,000, which is included in other nonoperating loss on the consolidated statement of operations and changes in net assets. The transaction resulted in a gain from the sale of \$4,300,000, which is included in other nonoperating activity in the consolidated statement of operations and changes in net assets.

20. Subsequent Events

The System evaluated events and transactions occurring subsequent to June 30, 2011 through October 12, 2011, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements.

Other Financial Information



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Independent Auditors' Report on Other Financial Information

The Board of Directors CHRISTUS Health

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of CHRISTUS Health as of June 30, 2011, and for the year then ended, and have issued our unqualified opinion thereon dated October 12, 2011. The accompanying community benefit information, on which we express no opinion, is presented for purposes of additional analysis and is not a required part of the basic financial statements taken as a whole.

Ernst + Young LLP

October 12, 2011

Community Benefit (Unaudited)

CHRISTUS complies with the Catholic Health Association's (CHA), A Guide for Planning and Reporting Community Benefits, ©2008, and the state of Texas reporting requirements. CHA guidelines have adopted the instructions for IRS Form 990, Schedule H.

Following is a summary of the System's quantifiable costs of community benefits provided for the years ended June 30, 2011 and 2010 (in thousands):

		2011	2010
		(Unaudi	ted)
Programs and services for the poor and underserved:			
Charity care at unpaid cost	\$	172,473 \$	168,553
Unpaid cost of Medicaid and other public programs		(146,355)	(133,446)
Community services for the poor and underserved		124,732	132,616
Total for the poor and underserved		150,850	167,723
Community services for the broader community:			
Education and research		11,152	16,473
Other community services		6,463	6,536
Total for the broader community	-	17,615	23,009
Total community benefits	\$	168,465 \$	190,732

The totals are calculated following CHA guidelines and adhere to IRS Form 990, Schedule H methodology. CHRISTUS Health has multiple reporting requirements of charity care and community benefit, which vary based on the definitional and timing requirements of each requesting organization.

In addition to the community benefits reported above, the state of Texas requires that the unpaid costs of Medicare and other government-sponsored programs be reported. For the fiscal years ended 2011 and 2010, the unpaid costs of these programs were \$169,292,000 and \$158,404,000, respectively. The unpaid costs of the Medicare program represent the cost of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments. The unpaid costs of other government-sponsored programs represent the cost for providing health care services to the beneficiaries of the Department of Defense (DOD) civilian care, included as per the state of Texas guidelines.

Community Benefit (Unaudited) (continued)

As noted, the CHRISTUS Community Direct Investment (CDI) Program was established to support community-driven initiatives, primarily for affordable housing and economic development, by providing financing at below-market interest rates. At June 30, 2011 and 2010, the CDI Program had \$6,104,117 and \$8,147,000, respectively, in outstanding loans; approximately 75% and 82%, respectively, of these loans relate to projects in CHRISTUS Health regions. The difference between the interest rates charged on the loans and the amount that the System would have earned on these monies is the forgone interest that is considered a community benefit. In fiscal years 2011 and 2010, the amount recognized as a community benefit related to this program was \$203,001 and \$234,816, respectively.

As noted, the CHRISTUS Fund was established for the purpose of providing grants to support community planning, healthy community initiatives, and community-based programs, with a focus on the poor and underserved areas where CHRISTUS Health ministries and sponsoring congregations are involved. During fiscal years 2011 and 2010, the CHRISTUS Fund provided grants of \$1,679,159 and \$1,603,133, respectively; approximately 96% and 94% of the grants relate to programs in CHRISTUS regions in 2011 and 2010, respectively.

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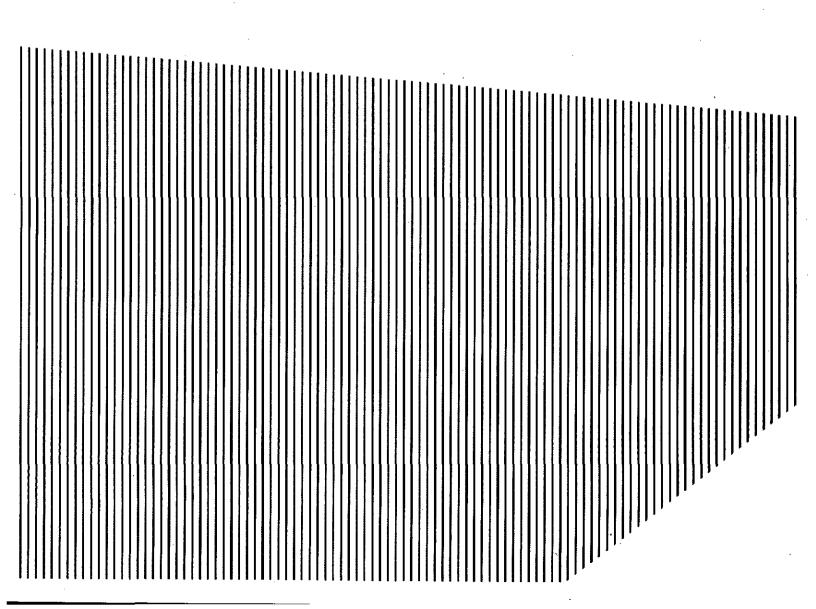
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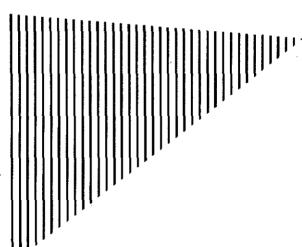
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REPORTS ON FEDERAL AND STATE AWARD PROGRAMS

CHRISTUS Health Year Ended June 30, 2011

Ernst & Young LLP

■ Ernst & Young

Reports on Federal and State Award Programs

Year Ended June 30, 2011

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements

Performed in Accordance with Government Auditing Standards

The Board of Directors CHRISTUS Health

We have audited the financial statements of CHRISTUS Health as of and for the year ended June 30, 2011, and have issued our report thereon dated October 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CHRISTUS Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHRISTUS Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CHRISTUS Health's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHRISTUS Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

October 12, 2011



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Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133, and State of Texas Uniform Grant and Contract Management Standards Act of 1981, and on Schedule of Expenditures of Federal and State Awards

The Board of Directors CHRISTUS Health

Compliance

We have audited CHRISTUS Health's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs and the types of compliance requirements described in the State of Texas Uniform Grant and Contract Management Standards Act of 1981 (UGCMS) that could have a direct and material effect on its major state programs for the year ended June 30, 2011. CHRISTUS Health's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of CHRISTUS Health's management. Our responsibility is to express an opinion on CHRISTUS Health's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and the UGCMS. Those standards, OMB Circular A-133, and the UGCMS require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about CHRISTUS Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of CHRISTUS Health's compliance with those requirements.

In our opinion, CHRISTUS Health complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended June 30, 2011.



Internal control over compliance

Management of CHRISTUS Health is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered CHRISTUS Health's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CHRISTUS Health's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal and State Awards

We have audited the consolidated financial statements of CHRISTUS Health as of and for the year ended June 30, 2011, and have issued our report thereon dated October 12, 2011. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133, the Louisiana Hospital Association Policy Number 3105-96, and the UGCMS and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

* * * * *

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This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

October 12, 2011

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2011

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS				
U.S. Department of Agriculture: Indirect Awards: Pass-through the Texas Department of State Health Services: Special Supplemental Nutrition Program for Women, Infants, and Children	CHRISTUS Santa Rosa Health Care	10.557	32-0113643	\$ 997,393
Total U.S. Department of Agriculture				997,393
U.S. Department of Justice: Indirect Awards: Pass-through the New Mexico Crime Victims Reparation Commission Crime Victim Assistance Total U.S. Department of Justice	CHRISTUS St. Vincent	16.575	2010-VA-GX- 0000	12,038 12,038
U.S. Department of Energy: Direct Awards: Epidemiology and Other Health Studies Financial Assistance Program – Marshall Islands Medical Care and Logistics Program Total U.S. Department of Energy	CHRISTUS Spohn Health System	81.108	·	3,682,796 3,682,796
U.S. Department of Health and Human Services: Direct Awards: ARRA – Equipment to Enhance Training for Health Professionals	CHRISTUS Spohn Health System	ARRA – 93.411		209,210
	Dystem ,	MACA = 33.411		209,210
,				207,210

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)				
, , ,				
Grants for Training in Primary Care	CHRISTUS St.			
Medicine and Dentistry	Vincent Regional			
	Medical Center	93.884		\$ 187,297
Grants for Training in Primary Care	CHRISTUS			
Medicine and Dentistry	Santa Rosa			
	Medical Center	93.884		156,828
				344,125
Health Care and Other Facilities	CHRISTUS			
	Health Central			
	Louisiana	93.887		141, 89 3
Health Care and Other Facilities	CHRISTUS			
	Health Central			
	Louisiana	93.887		87,039
				228,932
Specially Selected Health Projects	CHRISTUS			
	Health Central			
	Louisiana	93.888		61,206
Specially Selected Health Projects	CHRISTUS	•		
	Health Northern			
	Louisiana	93.888		345,264
		•	-	406,470
Direct Awards total				1,18 8, 737
Indirect Awards:				
Pass-through the Texas Hospital				
Association Foundation:				
ARRA – Public Health Emergency	CHRISTUS			
. Preparedness	Health	ARRA - 93.069	26-0597324	17,484
**************************************				17,484
Pass-through Luna Community College:				27,404
Area Health Education Centers Point	CHRISTUS St.			
of Service Maintenance and	Vincent Regional			•
Enhancement Awards	Medical Center	93.107	74-1362741	10,111
				10.111

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)		•		
Pass-through the Louisiana Department of Health & Hospitals: State Rural Hospital Flexibility Program	CHRISTUS Health Central Louisiana	93.241	72-141303400	
Pass-through Optum Health New Mexico:		•	,	1,500
Substance Abuse and Mental Health Services Projects of Regional and National Significance	CHRISTUS St. Vincent Regional Medical Center	93.243	94-2649097	70,846 70,846
Pass-through Texas Department of State Health Services:	•			
Centers for Disease Control and Prevention Investigations and Technical Assistance	CHRISTUS Health Ark-La- Tex	93:283	32-0113643	37,453
Pass-through Louisiana Department of	:			37,453
Health & Hospitals: Small Rural Hospital Improvement Grant Program	CHRISTUS Health Central Louisiana	93.301	72-141303400	7,405
Pass-through Texas Department of Rural Affairs:	,			.,
Small Rural Hospital Improvement Grant Program	CHRISTUS Health Southeast			
oran riogram	Texas	93.301	SHIP11011	8,205 15,610

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
	Досилон	Milliper		Dapenditures
FEDERAL AWARDS (continued)				
Pass-through the University of Texas Health Science Center at Houston:			·	
ARRA - Health Information	CHRISTUS			
Technology Regional Extension	Health –			_
Centers Program	Techsource	ARRA 93.718	90RC0064/01	\$ 14,579
Pass-through the Louisiana Health Care	·			
Quality Forum:	arm rom ro			
ARRA - Health Information	CHRISTUS			,
Technology Regional Extension	Health –	4DD 4 02 710	06.0407116	10.460
Centers Program	Techsource	ARRA 93.718	26-0497115	10,469
Dang through Towns Donortment of State				25,048
Pass-through Texas Department of State Health Services:				
ARRA – State Grants to Promote	CHRISTUS			
Health Information Technology	Health Southeast			
ricaidi information recimology	Texas	ARRA 93.719	32-0113643	• 439
	TOAUS	711dQ1 55.715	32-01130-3	439
U.S. Department of Health and Human Services				737
- National Bioterrorism Hospital				
Preparedness Program:				•
Indirect Awards:				, , , , , , , , , , , , , , , , , , ,
Pass-through Louisiana Hospital				
Association:				
National Bioterrorism Hospital	Dubuis Health			•
Preparedness Program	System	93.889	72-0489377	35,820
Pass-through the East Texas Gulf Coast		•		
Regional Trauma Advisory Council -				
Trauma Service Area R:				
National Bioterrorism Hospital	CHRISTUS			
Preparedness Program	Health Southeast	02.000	50 0/00000	06.022
•	Texas	93.889	72-0620280	96,023

Pass-through the Southeast Texas Trauma Regional Advisory Council – Area Q: National Bioterrorism Hospital CHRISTUS Preparedness Program Health Gulf Coast 93.889 76-0591592 \$ Pass-through the Louisiana Hospital	ditures
Pass-through the Southeast Texas Trauma Regional Advisory Council – Area Q: National Bioterrorism Hospital CHRISTUS Preparedness Program Health Gulf Coast 93.889 76-0591592 \$ Pass-through the Louisiana Hospital	
Regional Advisory Council – Area Q: National Bioterrorism Hospital CHRISTUS Preparedness Program Health Gulf Coast 93.889 76-0591592 \$ Pass-through the Louisiana Hospital	
Preparedness Program Health Gulf Coast 93.889 76-0591592 \$ Pass-through the Louisiana Hospital	
Gulf Coast 93.889 76-0591592 \$ Pass-through the Louisiana Hospital	
Pass-through the Louisiana Hospital	
	36,985
Association:	
National Bioterrorism Hospital CHRISTUS	
Preparedness Program Health Central	
Louisiana 93.889 72-0489377	5 8 ,082
National Bioterrorism Hospital CHRISTUS	
Preparedness Program Health	
Southwestern	
Louisiana 93.889	29,492
National Bioterrorism Hospital CHRISTUS	
Preparedness Program Health Northern	
Louisiana 93.889	46,659
Pass-through the State of New Mexico:	
National Bioterrorism Hospital CHRISTUS	
Preparedness Program St. Vincent	
Regional Medical	
Center 93.889 85-600565	44,819
Pass-through the Southwest Texas	
Regional Advisory Council:	
National Bioterrorism Hospital CHRISTUS	
Preparedness Program Santa Rosa	
Health Care 93.889 74-2896432	7,134
Total National Bioterrorism	
Hospital Preparedness Program	355,014
Pass-through the University of Texas	
Health Science Center at San Antonio:	
Maternal and Child Health Services CHRISTUS	
Block Grant to the States Santa Rosa	
Health Care 93.994 74-1586031	35,000

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)				
Pass-through Texas Department of State Health Services:				
Maternal and Child Health Services	CHRISTUS			
Block Grant to the States	Santa Rosa			
	Health Care	93.994	32-0113643	\$ 1,362
Total Maternal and Child Health Services Block Grant to the				
States				36,362
Research and Development Cluster:		•		
U.S. Department of Health and Human				
Services – National Institute of Health:				
Pass-through Southwest Oncology	÷			
Group:				
Cancer Treatment Research	CHRISTUS			
	Health Northern			
	Louisiana	93.395	38-6006309	2,550
Pass-through the Gynecological				
Oncology Group:				
Cancer Treatment Research	CHRISTUS			
	Health Northern			
	Louisiana	93.395	03-0466352	11,203
•				13,753
Pass-through MD Anderson:				•
Cancer Control	CHRISTUS		•	
	Health Central			
	Louisiana	93.399	72-6001118	44,000
Pass-through Tulane University:			. •	
Cancer Control	CHRISTUS			
	Health Central			
,	Louisiana	93.399	72-0423889	20,540
	•			64,540
Total U.S. Department of Health and Huma	n			
Services - National Institute of Health			·	78,293

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)				
U.S. Department of Health and Human Services – National Cancer Institute: Pass-through Louisiana State University:				
Southwestern Regional Tumor Registry	CHRISTUS Health			
Southwestern Regional Tumor Registry Southwestern Regional Tumor	Southwestern Louisiana CHRISTUS Health	93.SPH-E11S- AK-128	72-6000848	\$ 62,161
	Southwestern Louisiana CHRISTUS	93.SPH-E11S- AK-157	-	735
Registry Southwestern Regional Tumor	Health Southwestern Louisiana CHRISTUS	93.SPH-E10S- BG-113		5,618
Registry	Health Southwestern Louisiana	93.SPH-E11S- AK-182		7,875
Total Research and Development Cluster Total U.S. Department of Health and Human Services			.0	76,389 154,682 1,913,286

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)				
U.S. Department of Homeland Security: Indirect Awards:			•	
Pass-through the Texas Department of Public Safety:			•	
Hazard Mitigation Grant	CHRISTUS Health Southeast	•		•
	Texas	97.039	DR-1780-054	\$ 5,514
Hazard Mitigation Grant Hazard Mitigation Grant	CHRISTUS	77.037	DIC-1700-034	¥ 5,514
	Health Southeast			
	Texas	97.039	DR-1791-166	1,028
	CHRISTUS			
	Health Southeast			•
Hazard Mitigation Grant	Texas	97.039	DR-1791-167	1,028
	CHRISTUS			
	Health	07.020	DD 1500 040	17.050
Hazard Mitigation Grant	Gulf Coast	97.039	DR-1780-049	16,350
	CHRISTUS Health	-		
	Gulf Coast	97.039	DR-1780-051	151,605
Hazard Mitigation Grant	CHRISTUS	77.057		151,005
	Spohn Health	1		
	System	97.039	DR-1791-97	573,912
Hazard Mitigation Grant	CHRISTUS			•
	Spohn Health			
Hazard Mitigation Grant	System	97.039	DR-1791-98	92,402
	CHRISTUS		•	
	Spohn Health	07.030	DD 1501 105	25.121
Hazard Mitigation Grant	System CHRISTUS	97.039	DR-1791-127	37,184
	Spohn Health			
	System	97.039	DR-1791-289	28,340
Hazard Mitigation Grant	CHRISTUS	77.037	DR-1771-209	20,540
	Spohn Health			
	System	97.039	DR-1791-290	20,250
Total Hazard Mitigation Grant	-			927,613
Total U.S. Department of Homeland Security	•			927,613
TOTAL EXPENDITURES OF FEDERAL				
AWARDS				7,533,126

Federal Grantor/State Grantor/Pass-Through		Federal CFDA Number/ State Contract	Pass-Through Entity Identifying		
Grantor/Program or Cluster Title	Location	Number	Number	Ex	penditures
STATE AWARDS					
Louisiana					
State of Louisiana Department of Health and	•				
Hospitals:	OTTO LOTT 10				
Children's Health Insurance Program	CHRISTUS	DIDI# 055766			
(CHIP)	Health Central Louisiana	DHH# 055766 CFMS#689870		\$	105,000
Children's Health Ingurance December	CHRISTUS	CFM3#0898/U		4	105,000
Children's Health Insurance Program (CHIP) – Medical Vendor	Health Northern	DUU #052579			
Administration	Louisiana	CFMS#676826			50,000
Injury Prevention	CHRISTUS	C1 1415#070020			30,000
nijmy i ievention	Health Central	DHH# 55193			
	Louisiana	CFMS# 689808			60,132
	:	CI MEN COSCO			00,152
School-Based Health Centers:		* * * * * * * * * * * * * * * * * * * *			
State of Louisiana Department of Health	CHRISTUS				
and Hospitals:	Health Central				
·	Louisiana				
Pollock School-Based Health Center		DHH# 055541			
		CFMS#691606	•		45,387
Northwood School-Based Health		DHH# 055536			
Center		CFMS# 691270	-		129,640
Grant School-Based Health Center		DHH# 055533			
Dry Prong Jr. High School	•	CFMS# 691267		•	130,218
Tioga Jr. High School-Based Health Center		DHH# 055537			110 712
Glenmora School-Based Health		CFMS# 691271 DHH# 055542			110,712
Center	••	CFMS# 691370			125,262
Buckeye School-Based Health Center		DHH# 055538			123,202
Duditoy Comoon Dubbe Housen Comer		CFMS# 691273			122,756
Natchitoches Central School-Based		DHH# 055544	•		, ,,,,,,,
Health Center		CFMS# 691390	·		136,689
Tioga Sr. High School-Based Health		DHH# 055545			,
Center		CFMS# 691395			129,815
Leslie Moore & Pineville School-		DHH# 055541			•
Based Health Center		CFMS# 691269			121,400
Mansure Avoyelles Charter Schools -		DHH# 055532			•
School-Based Health Center -		CFMS# 691266	÷		145,722

Federal Grantor/State Grantor/Pass-Through	,	Federal CFDA Number/ State Contract	Pass-Through Entity Identifying		
Grantor/Program or Cluster Title	Location	Number	Number	Exp	enditures
STATE AWARDS (continued)					
LaSalle - School-Based Health		DHH# 055543			
Center		CFMS# 691386		\$	128,431
Lakeview Jr./Sr. High School –		DHH# 055539			
School-Based Health Center		CFMS# 691274			120,108
Marthaville/Cloutierville School-		DHH# 055540			
Based Health Center		CFMS#691275			139,535
Total Central Louisiana - School-Based					_
Health Centers					1,585,675
State of Louisiana Department of Health	CHRISTUS				
and Hospitals:	Health Northern				
	Louisiana				
Woodlawn Planning Grant		DHH #055550			
Adolescent School Health Program		CFMS#693389			134,086
Adolescent School Health Program -					,
CHRISTUS Schumpert Health		DHH #055549			
System - Atkins Health Center	•	CFMS#693387			134,086
Adolescent School Health Program -					•
CHRISTUS Schumpert Health		DHH #055547			
System - Linwood Health Center		CFMS#693385			134,086
Total Northern Louisiana - School-Based					
Health Centers					402,258
State of Louisiana Department of Health and Hospitals:	CHRISTUS Health				
	Southwestern Louisiana				
School-Based Clinics - Cameron		DHH# 055497			
Parish Schools		CFMS #692126			124,843
School-Based Health Clinic -		DHH# 055499			
Washington Marion High School		CFMS #692129			131,566
School-Based Health Clinic - Clifton		DHH# 055482			, -
& Combre Fondel		CFMS #692660	•		119,632

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
STATE AWARDS (continued)				
School-Based Health Clinic – Molo Middle School		DHH# 055496 CFMS #692125		\$ 110,321
Total Southwestern Louisiana – School- Based Health Centers				486,362
Total School-Based Health Centers				2,474,295
Pass-Through Louisiana State University Health Sciences Center:				
Southwestern Regional Tumor Registry	CHRISTUS Health Southwestern	SPH-E11A-BG-		
	Louisiana	100		68,700
Total expenditures of state awards – Louisiana				2,758,127
Texas Family Practice Residency Program: Direct Awards (Texas Higher Education Coordinating Board):				
Family Practice Residency Program Operational Grant	CHRISTUS Santa Rosa	THECB Contract		·
Family Practice Residency Program -	Health Care CHRISTUS	#4274		315,036
Primary Care Family Practice Residency Program	Tex CHRISTUS	THECB Contract #4261	•	143,210
Operational Grant	Spohn Health System	THECB Contract #4253		468,688
Family Medicine Resident's Rural Rotation	CHRISTUS Spohn Health	THECB Various		
Total Family Practice Residency Program Direct Awards (Texas Department of State Health Services):	System	physicians		<u>15,000</u> 941,934
Texas Breast and Cervical Cancer Program	CHRISTUS Health Ark-La- Tex	Grant Contract# 2009-034519		55

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Ехр	enditures
STATE AWARDS (continued)					
Texas Breast and Cervical Cancer Program	CHRISTUS Health Ark-La- Tex	Grant Contract# 2010-035671		\$	18,982
Total Texas Breast and Cervical Cancer Program					19,037
CSR – Health Worker Contract	CHRISTUS Santa Rosa Health Care	Grant Contract# CCP0410,CPP04 11,CPP412,CPP0 413,CPP0430			227,599
Texas Medcares	CHRISTUS Santa Rosa	Grant Contract#		-	-
Texas Medcares	Health Care CHRISTUS Santa Rosa	2011-038000 Grant Contract#			12,956
Total Texas Medcares Direct Awards (Office of Rural Community Affairs):	Health Care	2010-035167			282,404 295,360
Capital Improvement Loan Fund Program	CHRISTUS Health Southeas				
Total expenditures of state awards – Texas	Texas	CILF11005			25,355 1,509,285
Arkansas Direct Awards (Arkansas Department of Health):		•			
Arkansas Department of Health Trauma Designation Initial Start Up Grant	CHRISTUS Health Ark-La- Tex	4600019662			125 004
Arkansas Department of Health Trauma Designation Sustaining Grant	CHRISTUS Health Ark-La-				125,000
Total expenditures of state awards – Arkansa	Tex	4600021429			226,901 351,901

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
STATE AWARDS (continued)	·			
New Mexico Indirect Awards: Pass-through from University of New Mexico Health Sciences Center: Northern New Mexico Family Practice Residency Program	CHRISTUS St. Vincent Regional Medical Center	Contract #160378	85-6000642	\$ 85,637
Total expenditures of state awards – New Mexico TOTAL EXPENDITURES OF STATE AWARDS TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS	, ·			\$5,637 4,704,950 \$ 12,238,076

See accompanying notes to schedule of expenditures of federal and state awards.

Notes to Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2011

1. Basis of Accounting

The schedule of expenditures of federal and state awards presents expenditures for all federal and state programs that were in effect during the year ended June 30, 2011.

Expenditures are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and State of Texas Uniform Grant Management Standards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

2. Nature of Activities

CHRISTUS Health receives various grants to cover costs of specified programs. Final determination of eligibility of costs will be made by the grantors. Should any costs be found ineligible, CHRISTUS Health will be responsible for reimbursing the grantors for these amounts.

The amounts reported for the expenditures incurred for the year ended June 30, 2011, for the National Bioterrorism Hospital Preparedness Program (CFDA Number 93.889) include donated equipment and supplies received by various regions from the respective pass-through entity.

Additionally, expenditures incurred for various programs may exceed the amounts awarded from the respective pass-through entity or agency. The amounts reported on the schedule of expenditures of federal and state awards are limited to the award amounts. Amounts in excess of this amount are paid out of non-federal and state sources.

3. Subrecipients

Of the state expenditures related to the Family Practice Residency Program, CHRISTUS Health provided \$143,210 to subrecipients. Of the federal expenditures related to the Department of Energy Program, CHRISTUS Health provided \$3,512,370 to subcontractors.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Part I - Summary of Auditor's Results

Financial statements section

Type of auditor's report issued:	Unqualified .			
	<u>Yes</u>	No		
Internal control over financial reporting:	•	•		
Material weakness(es) identified?		· X		
Significant deficiency(ies) identified?		X		
Noncompliance material to financial statements noted?		X		
Federal awards section	Yes	No		
Internal control over major programs:				
Material weakness(es) identified?		X		
Significant deficiency(ies) identified?		X ·		
Type of auditor's report issued on compliance for major programs	Unqua	alified		
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	:	X		

Schedule of Findings and Questioned Costs (continued)

Part I – Summary of Auditor's Results (continued)

State awards section	Yes	No
Internal control over major programs:		
Material weakness(es) identified?		X
Significant deficiency(ies) identified?	•	· X
Type of auditor's report issued on compliance for major programs:	Unqı	nalified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Part IV of the State of Texas Uniform Grant and Contract Management Standards Act of 1981?		X
CFDA Number(s)	Name of Federal/State Program or Cluster	
Identification of major federal programs:		
81.108	Epidemiology and Other Health Studies Financial Assistance Program	
93.411	ARRA – Equipment to Enhance Training for Health Professionals	
93.887	Health Care and Other Facilities	
93.888	Specially Selected Health Projects	
97.039	Hazard Mitigation Program	

Schedule of Findings and Questioned Costs (continued)

Part I - Summary of Auditor's Results (continued)

CFDA Number(s)	Name of Federal/State Program or Cluster		
Identification of major state programs:	•		
No CFDA	Texas Family Practice Residency Program		
No CFDA .	Texas Medcares Program		
Dollar threshold to distinguish between Type A and Type B programs	\$300,000		
	Yes	No	
Auditee qualified as low-risk auditee?		X	

Part II - Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the consolidated financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

No findings were noted.

Schedule of Findings and Questioned Costs (continued)

Part III - Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 Section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

No findings were noted.

Part IV - State Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Section __.510(a) of the State of Texas Uniform Grant Management Standards, Part IV (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving state awards that are material to a major program.

No findings were noted.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2011

Summary of Prior Audit Findings

This section identifies prior year significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major programs as required to be reported by OMB A-133, Section_.510(a).

None.

1107-1277054

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